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SUBJECT: EXPANSION OF BTC PIPELINE CONTINGENT ON NEW OIL
VOLUMES AND SECURITY

Classified By: Economic Counselor Dale Eppler for reasons 1.4 (b) and (d)

11. (SBU) Summary and comment: On October 5, we met with local BP representatives Djan Suphi, Director for Exploration and Production in Turkey and Norman Rodda, Project Manager for Baku-Tbilisi-Ceyhan (BTC) pipeline company to discuss two projects to increase the capacity of the line to 1.2 and 1.6 million barrels of oil throughput a day. The latter increase is contingent on BP striking a deal to attract additional oil volumes to BTC. Security concerns could put both projects on hold. The meeting reminded us of the complexity and length of time it takes to negotiate major oil production and transportation deals. A quick review of the BTC project milestones reveals a 12 year process from the signing of a production sharing agreement in September 1994 to an a BTC Inter-governmental and host country agreement in November 1999 to first oil delivery in June 2006. End summary and comment.

12. (U) BTC current crude oil production is 900 thousand barrels per day. BTC,s designed capacity is 1 million barrels per day (mbpd) and they are planning two phases of capacity increases. They expect Azeri-Chirag-Gunesli (ACG) oil field to reach peak production in 2010 with 1.12 million barrels per day. A capacity increase to 1.2 mbpd is scheduled to be completed by mid-2008. This phase is not difficult technically and doesn't require infrastructure spending. The capacity increase is achieved by injecting 'drag-reducing lubricants' into the pipeline thereby reducing friction and allowing for greater flows of oil. Financially, this increase is justified by volumes from ACG field operated by BP.

13. (U) The second phase of capacity increases are more costly and BTC has not made a final decision on whether to pursue. To increase BTC capacity to 1.6 mbpd, additional pump stations are needed as well as another pier in Ceyhan to off-load crude to tankers. The financial case for this expansion has not yet been made. BP needs to lock in an additional 400 thousand bpd of oil supply in order to justify

the expansion.

¶4. (C) BP also will have to consider pipeline security as it moves forward with these projects. Security concerns could scuttle both of these planned phases. With the October 17 passage of a parliamentary resolution authorizing the Prime Minister to conduct cross border operations against PKK terrorists in Northern Iraq, the PKK has again threatened to attack the BTC pipeline. Security of the pipeline is a shared responsibility between the Turkish National Police (TNP) and private security contractors hired by BOTAS (state-owned pipeline company). The TNP told BP that the line was too long (1,075 km) and the pumping stations too remote to realistically secure against attack. According to Suphi, an attack on one of the four pumping stations located in Turkey could put the pipeline out of service for a month or more.

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WILSON